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C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 000382

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DOE FOR GPERSON, CHAYLOCK

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TAGS: [EPET](#) [ENRG](#) [PGOV](#) [PREL](#) [RS](#) [CH](#) [NI](#)

SUBJECT: NIGERIA: ECONOMIC IMPACT OF DELTA UNREST WORSE  
THAN NNPC PUBLICLY ADMITS

REF: A. LAGOS 77

[1](#)B. LAGOS 368

[1](#)C. ABUJA 643

Classified By: Consul General Donna M. Blair for reasons 1.4 (B) and (D)  
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[1](#)1. (C) Summary: In a September 20 meeting, Levi Ajuonuma (strictly protect), Group General Manager for Public Affairs for the Nigerian National Petroleum Corporation (NNPC) said unrest in the Niger Delta is hurting oil revenues far more than senior NNPC officials are publicly admitting. Because it can't reliably deliver oil cargoes, NNPC is forced to sell some of it crude oil at a discount to attract buyers. Ajuonuma labeled the Russians as very active in seeking Nigerian natural gas concessions and said they enjoy considerable support from Northern Nigerian leaders. A dispute may widen over President Yar'Adua's plan to take blocks assigned to a Chinese oil company and give them to NNPC. Ajuonuma believes the President will seek to fast-track oil reform legislation. Ajuonuma is close to the current Group Managing Director of NNPC and the Minister of State for Petroleum and his statements may reflect their views. End Summary.

[1](#)2. (C) Levi Ajuonuma, NNPC's Group General Manager for Public Affairs told Energyoff on September 20 that the impact of the unrest in the Niger Delta on Nigeria's oil revenues is "far worse" than senior NNPC officials are admitting publicly. According to Ajuonuma, refinery operators worldwide are increasingly reluctant to gear their production towards Nigerian crude oil, fearing supply disruptions that would result in costly refinery downtime and restarts. As a consequence, NNPC's crude oil marketing department recently had to sell some oil cargoes below the world market price for the specific grade of crude oil in order to attract buyers. Ajuonuma hinted that NNPC's Group Managing Director (GMD) Abubakar Yar'Adua has made intentionally misleading statements about Nigeria's current oil production. (Note: A Canadian High Commission poloff relayed to Energyoff on September 19 that GMD Yar'Adua told diplomats assembled for an August 12 Gulf of Guinea Energy Security Strategy (GGESS) meeting in Abuja that Nigerian oil production is up to 2.6 million barrels per day (bpd). NNPC officials and spokesmen have made similar claims in the local press. International oil company executives in Lagos and the International Energy

Agency estimate Nigeria's August 2008 production to be slightly more than 1.9 million bpd. Recent violence in Rivers State may have taken out 300,000 bpd, dropping Nigeria's current production level to 1.6-1.7 million bpd. End Note.)

13. (C) Ajuonuma lamented the Joint Task Force's (JTF) inability to deal with the militants in Rivers State. NNPC would like USG technical and intelligence assistance to the JTF specifically to interdict the flow of arms to militant groups. While NNPC sees the GGESS as the best avenue for international cooperation in improving the security situation in the Niger Delta, Ajuonuma said it does not have the support of the Nigerian military.

Russians "Very Active", Enjoy Northern Support  
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14. (C) Ajuonuma agreed that a recently signed memorandum of understanding between Russia's GAZPROM and the Government of Nigeria (GON) lacked substance and details. However, Nigerian political leaders took the MOU as a sign of Russia's commitment to the Nigerian natural gas sector and he described the Russians as "very active" in Abuja, with GAZPROM moving quickly to acquire natural gas concessions in Nigeria. Ajuonuma corroborated information we received from a senior international oil company executive who recently told us the GON may take oil blocks currently assigned to international oil companies and turn them over to GAZPROM for gas exploitation. Ajuonuma would not name specific international oil companies that may be targeted; he did say

LAGOS 00000382 002 OF 003

it would be companies not "fully exploiting the gas resources allotted to them." According to Ajuonuma, the Russians enjoy considerable support from Northern Nigerian politicians, particularly those close to President Yar'Adua (Refs A,B). When asked, he affirmed that Venezuela has reached out to the GON on oil issues, but he does not see them as playing as big a role in the Nigerian petroleum sector as Russia, China, India, or South Korea.

Dispute Between China and GON Over Oil Blocks  
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15. (C) On the question of Chinese activity in the Nigerian oil sector, Ajuonuma confided that there is a major dispute brewing between the GON and Chinese government over oil blocks awarded to a Chinese firm during the Obasanjo administration. He claims President Yar'Adua has decided to pull oil blocks awarded to a Chinese company and turn them over to NNPC's oil production unit as part of a reform plan to make NNPC a viable, stand-alone company. (Note: President Yar'Adua told the Ambassador this in her April 3 meeting with him just after his return from a state visit to China. End Note.) (Ref C). Ajuonuma said that the GON and Chinese officials had a gentlemen's agreement on these oil blocks; if after the change of Presidential administrations in 2007, the new administration wanted to renegotiate the price, the Chinese would be willing to sweeten the deal. Accordingly, the Chinese were caught off guard by the plan to pull the blocks all together and Ajuonuma characterized the Chinese government as "very angry". He feared the dispute may have a broader impact on the China/Nigeria relationship. Interestingly, Ajuonuma said NNPC senior executives have counseled against the plan, even though their company would stand to benefit, fearing it will further erode investor confidence at a time when the country is seeking outside investment in the upstream oil and gas sector. (Comment: Ajuonuma didn't name the Chinese company or oil blocks in question. The local press reports that the GON is reviewing the 2006 assignment of four oil blocks to the China National Petroleum Corporation: Oil Prospecting License (OPL) 298 in Delta State, OPL 471 near offshore Bayelsa State, and OPLs 721 and 732, both in the Chad Basin. China National Offshore Oil Corporation acquired deep offshore block OPL 229 in 2006,

but sold its working interest this August. It retains the largest equity share of the Total-operated deep offshore oil block Oil Mining License 130. NNPC's production unit does not have the technical capacity to operate in the deep offshore environment, so OPLs 298, 471, 721, and 732, which are either onshore or near offshore, would be the most likely Chinese-owned fields to be handed over to NNPC. We have heard that the GON will assign oil fields in Ogoniland (fields recently pulled from Shell Petroleum Development Corporation) to NNPC as part of this same reform plan. End Comment.)

Yar'Adua to Fast Track Oil Reform Legislation;  
Corrupt Regulator May Return  
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¶16. (C) Ajuonuma commented on a number of other ongoing issues in the oil sector. He believed President Yar'Adua would personally work out a deal with senior legislators to fast-track a recently introduced bill aimed at reforming the petroleum sector. Ajuonuma was hopeful the legislation could be passed as written within the next few months. (Note: Most industry insiders expect the process to take nine months to a year at best and be extremely contentious. End note.) NNPC has formed technical transition committees to transfer the organization to its new structure. He commented that Tony Chukwueke, the head of the Department of Petroleum Resources who was placed on a leave of absence during a probe of improprieties in the 2007 oil block bid round, may resume his post if Minister of State for Petroleum Ajumogobia stays on or moves up to become the Minister of Energy in the cabinet shuffle.

¶17. (C) Comment: Ajuonuma survived last year's changing of

LAGOS 00000382 003 OF 003

guard at NNPC and he is thought to be close to both Minister of State Ajumogobia and NNPC GMD Yar'Adua. He travels internationally with both men and even well-connected Nigerian oil executives will acknowledge he acts as a gate keeper to the upper echelon of NNPC. His opinions likely reflect the views of NNPC senior officials and the Minister of State. The idea that oil reform legislation will quickly pass through the National Assembly may be more wishful thinking on the part of NNPC rather than an honest assessment of political realities. President Yar'Adua has not proven particularly effective at working the legislative process to his advantage, although he has stated how this is one of his objectives. End Comment.

¶18. (U) This cabled cleared by Embassy Abuja.  
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